

Message Text

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C O N F I D E N T I A L BONN 01452

USEEC, USOECD

E.O. 11652: GDS
TAGS: EAID, EG, GW
SUBJ: FRG AID TO EGYPT

1. IN DISCUSSIONS WITH HEICK OF CHANCELLORY
AS WELL AS DESK OFFICER AT FRG MIN
ECON COOPERATION, WE LEARNED THAT, DURING HIS RECENT
VISIT TO EGYPT, CHANCELLOR SCHMIDT INFORMED PRESIDENT
SADAT OF THE FOLLOWING FRG AID PLANS FOR 1978:

A. DM 250 MILLION IN CAPITAL ASSISTANCE UNDER IDA
CONDITIONS;

B. A "SPECIAL ADDITIONAL" GRANT OF DM 60 MILLION IN
CAPITAL ASSISTANCE FOR THE PURCHASE OF LOCOMOTIVES;

C. DM 15 MILLION FOR TECHNICAL ASSISTANCE PROJECTS
IN THE FIELDS OF AGRICULTURE, THE BUILDING MATERIALS
INDUSTRY, AND GENERAL INFRASTRUCTURE IMPROVEMENTS; AND
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D. AN INCREASE OF DM 200 MILLION IN THE EXPORT
GUARANTEE CEILING FROM DM 550 MILLION TO DM 750 MILLION.

2. THE FOREGOING PLANS ARE SUBJECT TO FINAL APPROVAL
IN THE FRG BUDGET DEBATE, WHICH IS SCHEDULED FOR THE
WEEK OF JANUARY 23.

3. IN HIS BRIEFING FOR THE CHANCELLOR, HEICK HAD SUGGESTED THAT THE CHANCELLOR RAISE WITH PRESIDENT SADAT THE QUESTION OF FORMER FINANCE MINISTER MOELLER'S REPORT TO THE INTERNATIONAL MONETARY FUND. HEICK HAS HEARD NOTHING FURTHER ON THIS AND DOUBTS WHETHER SCHMIDT AND SADAT EVER DISCUSSED IT.

4. A REVIEW OF THE QATTARA FEASIBILITY STUDY HAD LED THE FRG TO THE DECISION THAT EVEN FURTHER FUNDING OF THE STUDY WOULD BE UNSOUND ECONOMICALLY. HOWEVER, BOTH SULTAN AND SADAT CONVINCED THE FRG THAT FOR DOMESTIC EGYPTIAN POLITICAL REASONS, IT WAS NECESSARY TO AT LEAST COMPLETE THE STUDY. THUS, THE FRG HAS AGREED TO CARRY OUT THE STUDY TO ITS TERMINATION; EXPECTED DATE OF COMPLETION OF THE STUDY IS THE SUMMER OF 1979.

5. THE FRG MINECON COOPERATION IS FIRM IN ITS OPINION, HOWEVER, THAT THE FRG WILL NOT GO FURTHER THAN COMPLETION OF THE STUDY AND THAT NO GERMAN AID WILL BE FORTHCOMING FOR IMPLEMENTATION OF THE QATTARA DEPRESSION PROJECT. MINECON COOPERATION OFFICIALS SPECIFICALLY POINTED TO LACK OF ADEQUATE ENGINEERING STUDIES, AS WELL AS OVER-ALL COSTS VERSUS RESULTANT ENERGY/ECONOMIC GAIN. THEY SUSPECT THAT, IN SPITE OF THE NEGATIVE

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ASPECTS OF THE FEASIBILITY STUDY, THE EGYPTIANS WILL STILL TRY TO "SELL" THE PROJECT TO THE WORLD BANK AND/OR OTHER DONORS. (THE MINECON COOPERATION HAS ALREADY BEEN APPROACHED BY THE SAUDIS REGARDING THE STUDY.)

6. FRG MINECON COOPERATION SOURCE STATED THAT FRG IS EXTREMELY DISAPPOINTED WITH EGYPTIAN BUDGET FOR 1978, WHICH HE DESCRIBED AS COMPLETELY LACKING IN ECONOMIC REFORM. HE FURTHER SPECULATED THAT MAY MEETING OF WORLD BANK WOULD HAVE TO DEAL WITH THIS PROBLEM IN DETAIL.
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